

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
Land Division
Honolulu, Hawaii 96813

January 8, 2010

Board of Land and Natural Resources
State of Hawaii
Honolulu, Hawaii

Hawaii

Consent to Assign General Lease No. S-5721, Kona Blue Water Farms, Inc., Assignor, to Keahole Point Fish LLC, Assignee, Kalaoa 1st through 4th, North Kona, Hawaii, Tax Map Key: 3rd/7-3-43: seaward of Kalaoa.

APPLICANT:

Kona Blue Water Farms, Inc., a Delaware corporation, as Assignor, to Keahole Point Fish LLC, a Delaware limited liability company, as Assignee.

LEGAL REFERENCE:

Section 171-36(a)(5), Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government lands of Kalaoa 1st through 4th situated at North Kona, Hawaii, identified by Tax Map Key: 3rd/7-3-43: seaward of Kalaoa, as shown on the attached maps labeled Exhibit A.

AREA:

90.00 acres, more or less.

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act

DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: NO

CHARACTER OF USE:

Mariculture purposes.

TERM OF LEASE:

20 years, commencing on November 1, 2004 and expiring on October 31, 2024. The first and only rental reopening is scheduled for November 1, 2014.

ANNUAL RENTAL:

For the first ten years, \$2,100.00 per annum or 1% of the gross revenue, whichever is greater.

CONSIDERATION:

\$277,000.

RECOMMENDED PREMIUM:

By memorandum dated December 16, 2009, the Staff Appraiser determined that no premium is due to the State. The Chairperson approved this determination on December 18, 2009. See Exhibit B attached.

DCCA VERIFICATION:

ASSIGNOR:

Place of business registration confirmed:	YES <u>X</u>	NO <u> </u>
Registered business name confirmed:	YES <u>X</u>	NO <u> </u>
Good standing confirmed:	YES <u>X</u>	NO <u> </u>

ASSIGNEE:

Place of business registration confirmed:	YES <u>X</u>	NO <u> </u>
Registered business name confirmed:	YES <u>X</u>	NO <u> </u>
Good standing confirmed:	YES <u>X</u>	NO <u> </u>

REMARKS:

General Lease No. S-5721 was issued Kona Blue Water Farms, LLC (KBWF LLC) by direct negotiation on October 19, 2005, pursuant to Hawaii Revised Statutes Chapters 171 and 190D. In the years since, KBWF LLC has operated an offshore aquaculture facility on the lease premises subject to the conditions set forth in Conservation District Use Permit Nos. HA-3118B and HA-3497. Under CDUP No. HA-3497, KBWF LLC is permitted to operate up to five net pens in production, none larger than 7,000 cubic

meters, and together totaling no greater than 24,000 cubic meters.

According to the records of the Department of Commerce and Consumer Affairs, on September 1, 2009, KBWF LLC converted from a Delaware limited liability company to a Delaware corporation called Kona Blue Water Farms, Inc. (KBWFI).

On December 10, 2009, KBWFI, as assignor, and Keahole Point Fish LLC (KPF), as assignee, submitted an application requesting the Board of Land and Natural Resources' consent to the assignment of GL S-5721 from KBWFI to KPF. In the application, the parties explain that KBWFI intends to sell the assets of its offshore mariculture operation to KPF while retaining ownership of the shore-based hatchery facility, research and development, and sales and marketing of Kona Kampachi®. KPF will provide expertise in offshore mariculture operations, and new capital to reconfigure the vessels and offshore net pen infrastructure to increase efficiency.

KPF is a new company, formed under Delaware law on November 13, 2009. Accordingly staff requested, and KPF provided by letter dated December 17, 2009, information on the expertise of its principals in mariculture operations. The primary investor, Hugh Reilly, has several decades of experience in the seafood processing and commercial fishing enterprises. Additionally, Todd Madsen, the president of KPF, has also served as the president of OceanSpar LLC since 2006, a company that develops new technologies for the marine aquaculture industry, including the design and installation of large-scale fish pens. See Exhibit C attached. Based on the information provided by the parties, KPF appears to be qualified to operate the mariculture facility on the lease premises.

The lessee is compliant with all lease terms and conditions including rent, insurance and performance bond. Four notices of default were sent to KBWF LLC since the inception of the lease as follows:

- January 29, 2008 – \$50 late fee outstanding
- April 25, 2008 – expired performance bond
- July 1, 2009 – expired liability insurance
- July 6, 2009 – outstanding percentage rent

All defaults were timely cured after KBWF LLC's receipt of the notices.

As mentioned above, the subject lease contains a percentage rent provision. KBWFI has paid percentage rent through the lease year ending October 31, 2009. Staff is including a special condition below that KBWFI submit a supplemental percentage rent report and pay any percentage rent due for the period November 1, 2009 through January 8, 2010 before staff finalizes the consent to assignment instrument and submits it to the Chairperson for signature.

Assignee has not had a lease, permit, easement or other disposition of State lands

terminated within the last five years due to non-compliance with such terms and conditions.

The first and only rental reopening under the lease is scheduled for November 1, 2014. There are no outstanding rental reopening issues.

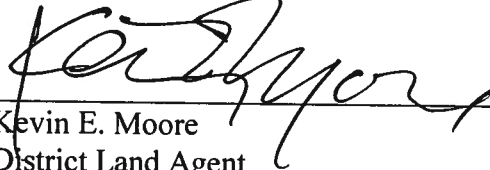
No agency or community comments were sought as the pending request is for an assignment of an existing lease and not a new disposition.

RECOMMENDATION:

That the Board consent to the assignment of General Lease No. S-5721, from Kona Blue Water Farms, Inc., Assignor, to Keahole Point Fish LLC, Assignee, effective as of January 8, 2010 subject to the following:

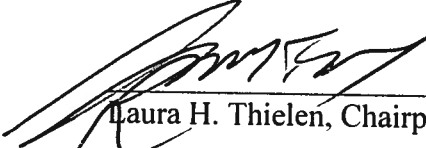
1. The standard terms and conditions of the most current consent to assignment form, as may be amended from time to time;
2. Review and approval by the Department of the Attorney General;
3. Assignee Keahole Point Fish LLC shall at all times comply with the conditions of Conservation District Use Permit Nos. HA-3118B and HA-3497;
4. Assignor Kona Blue Water Farms, Inc. shall submit a supplemental percentage rent report and pay any percentage rent due for the period November 1, 2009 to January 8, 2010 before staff finalizes the consent to assignment instrument and submits it to the Chairperson for signature; and
5. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,



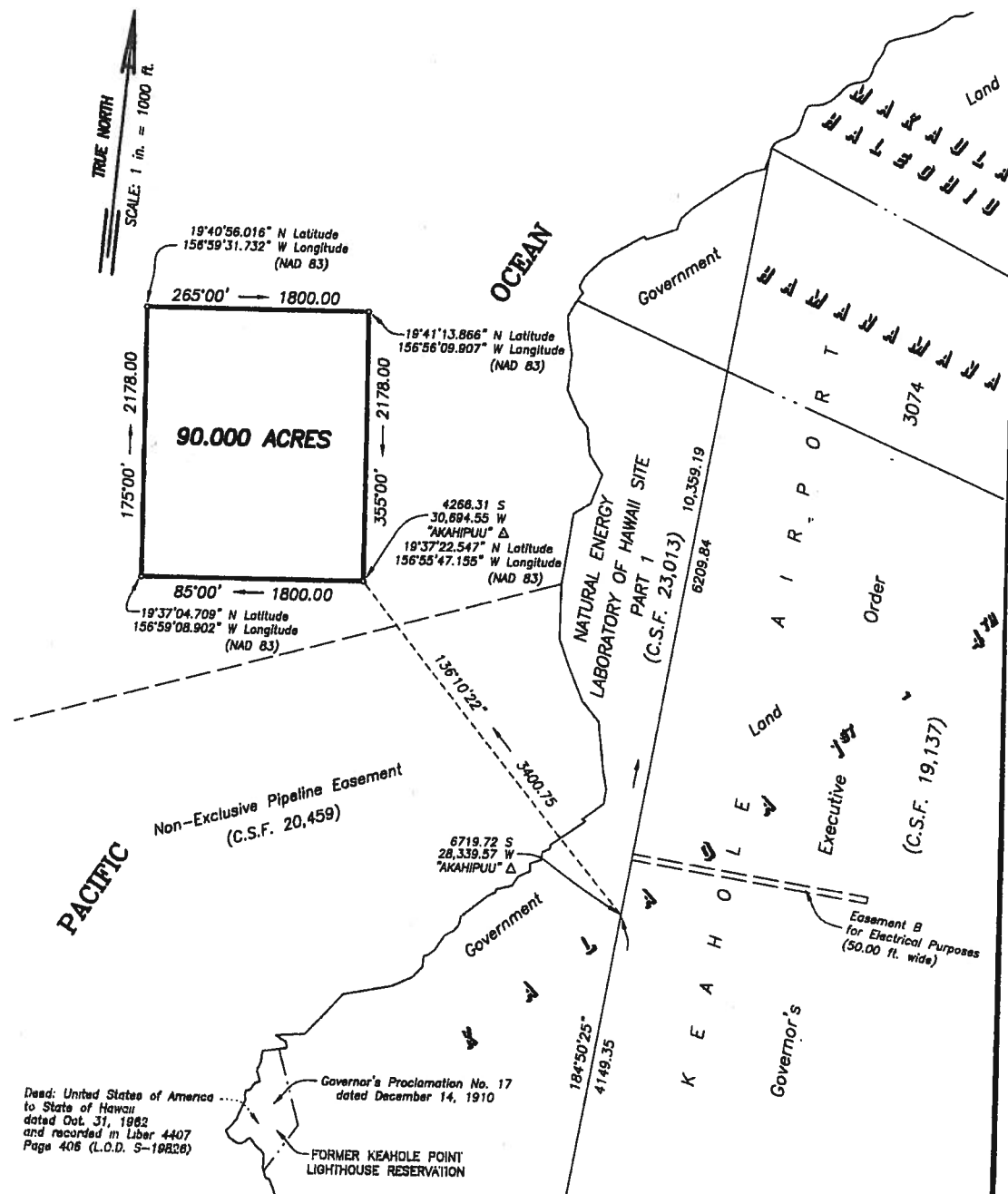
Kevin E. Moore
District Land Agent

APPROVED FOR SUBMITTAL:



Laura H. Thielen, Chairperson





MARICULTURE LEASE

Situate in the offshore waters of
Kalaoa 1st-4th, North Kona, Island of Hawaii, Hawaii

Scale: 1 inch = 1000 feet

Job H-72(04)

2. BK.

TAX MAP 7-3-43: Seaward

C.S.F. NO. 23,857

SURVEY DIVISION
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE OF HAWAII

RDM September 30, 2004



STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
LAND DIVISION

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

December 16, 2009

2009 DEC 23 A 9:31

MEMORANDUM

TO: Laura H. Thielen, Chairperson

THROUGH: Morris M. Atta, Division Administrator *Morris M. Atta*

FROM: Cyrus C. Chen, Real Estate Appraisal Manager *Cyrus C. Chen*

SUBJECT: In-House Valuation Recommendation – Assignment of Lease Calculation

GL No.: S-5721
Lessee/Assignor: Kona Blue Water Farms, LLC
Assignee: Keahole Point Fish, LLC
Location: Offshore of Kalaoa 1st-4th, North Kona, HI
Land Area: 90 acres submerged
Tax Map Key: (3) 7-3-43: seaward of Kalaoa
Char. of Use: Commercial mariculture

We have been requested to provide an in-house evaluation of the assignment premium due to the State for an assignment of GL S-5721 due to the acquisition of the assets of Kona Blue Water Farms, LLC by Keahole Point Fish, LLC. A review of the lease documents and information provided by lessee was analyzed and staff applied the formula approved by the Land Board on December 15, 1989, agenda item F-10, comprising of the Assignment of Lease Evaluation Policy.

Net consideration		\$277,000
Actual improvement cost	\$2,387,071	
Adjusted improvement cost	\$3,015,641	
Trade fixture cost	\$0	
Total improvement and trade fixture cost	\$3,015,641	
Less depreciation (10 yr. lifespan)	<u>(\$1,507,821)</u>	
Depreciated value of improvements & fixtures	\$1,507,821	
Less adjusted improvement cost (inc. trade fixtures)		<u>(\$1,507,821)</u>
Excess		(\$1,230,821)
Premium % (6-10 years elapsed)		<u>45%</u>
Premium		(\$553,869)

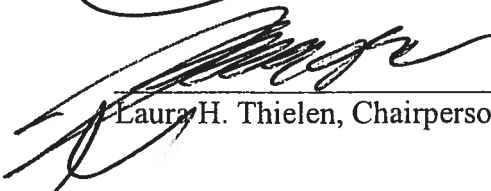
EXHIBIT B

Based on these calculations resulting in a negative premium calculation, the premium due the State is \$0.

Special Conditions and Limiting Assumptions

- 1) The subject property was not inspected by the staff appraiser.
- 2) This memo does not comply with USPAP and is to be used for determining the assignment premium due the State only.

Approved/Disapproved:



Laura H. Thielen, Chairperson



Date

cc: District Branch Files
Central Files

DEC 21 2009

Keahole Point Fish LLC

21 Commonwealth Avenue
San Francisco, CA 94118

December 17, 2009

Mr. Kevin Moore
State Lands Division
75 Aupuni Street, Room 204
Hilo, HI 96720

Dear Kevin,

Thank you for your assistance with the transfer of the Kona Blue Water Farms offshore mariculture lease to Keahole Point Fish LLC. We believe that our team of investors, managers, partners and crew has the experience and capital resources to ensure the success of the mariculture lease site. This letter and the attached biographies outline the background and expertise of that team.

Lead Investor

The primary investor in Keahole Point Fish is Hugh Reilly. Hugh has more than 30 years experience founding and building seafood production and processing businesses, including Horizon Trawlers, Westward Seafoods and Supreme Alaska Seafoods. Please see Hugh's biography attached.

Managers & Partners

I will be initial President of Keahole Point Fish. As President of OceanSpar LLC for the past 3 years, I have worked with offshore mariculture operations in the USA, Korea, Spain, Panama and other locations. I have worked closely with Kona Blue the past 2 years and expect to continue to work closely with Neil Sims and the management team there. Please see my current biography attached.

Keahole Point Fish will partner closely with OceanSpar LLC (www.oceanspar.com) in the operation of the mariculture site. OceanSpar provides submersible net pens and marine engineering services to the offshore mariculture industry. The team at OceanSpar has over 30 years cumulative experience working in the offshore mariculture industry and over 10 years cumulative experience working with Kona Blue on this specific mariculture site and species.

Crew

Keahole Point Fish will retain the offshore crew which currently operates the mariculture lease. This team has over 20 years cumulative experience working on this specific mariculture site with

EXHIBIT C

Keahole Point Fish LLC

21 Commonwealth Avenue
San Francisco, CA 94118

the targeted production species (*seriola rivoliana*). This team and its offshore managers understand the site conditions off Keahole Point and will continue to focus on the environmental security of the area.

Please don't hesitate to contact me at (415) 305 3543 if you have additional questions about the background and experience of the Keahole Point Fish LLC team.

Sincerely,

/s/ Todd Madsen

Todd Madsen
President, Keahole Point Fish LLC

cc: Neil Sims, Kona Blue

attachments

HUGH REILLY

909 Harvard Avenue, East
Seattle, WA 98102

(406) 270 0029
westward@cavancapital.com

WORK HISTORY

Seafood Processing

1989 - Present

- Formed **Supreme Alaska Seafoods** (Seattle) in partnership with Maruha-Nichiro for operation of a surimi mothership in Alaskan & Pacific Coast waters (\$40 million annual sales). Served as Director 1990 to present.
- Founded **Westward Seafoods** (Seattle, Dutch Harbor) in 1989 for Maruha-Nichiro and led construction of surimi & seafood processing plant in the Aleutian Islands (\$100 million annual sales). Served as President then Chairman 1989 to 1995.
- Formed **Horizon Fish Company** (Hoquiam, WA) to process Pacific Coast groundfish for sale and fresh distribution through U.S. (\$1 million annual sales). Served as President 1979 to 1987.

Commercial Fishing

1978 - 2000

- Construction and operation of multiple commercial trawl vessels operating in the Bering Sea, Gulf of Alaska and U.S. Pacific coastal areas. Participation in Pollock, Yellowfin Sole, Cod and Pacific Whiting fisheries.
- Participation in early Magnuson-Stevens Act "Joint-Venture" fisheries organizing fleets of owned & contracted fishing vessels to deliver American-caught fish at-sea to Japanese, Soviet, Polish & Korean fleets (harvesting over 200,000 tons per year).
- Active throughout in various U.S. regulatory bodies, Pacific & North Pacific Fishery Management Councils, industry associations and international fisheries treaty bodies.
- Commercial Fishing Companies (Founder, Owner)

Horizon Trawlers, Inc.
Westward Trawlers, Inc.

Seattle
Seattle

Shipping & Trading

1966 - 1986

- Chartering, brokerage and operation of owned, chartered and agency vessels (tanker, dry cargo, reefer). Responsible for new shipping line and business development.

Shipping & Trading Companies

Horizon Shipping & Trading (Founder, Owner)
Marine Chartering
American President Lines
Micronesia Interocean (Founder)

San Francisco, Tokyo
San Francisco
San Francisco
Siapan

EDUCATION

University of California, San Francisco
Coursework in Economics and Finance

1972 - 1973

University of California, Berkeley

Bachelor of Science – Naval Architecture, Marine Engineering

1964

OTHER

Pacific Catalyst Expeditions, LLC

1997 - 2004

Owned and operated two classic motor yachts in SE Alaska passenger service. Currently retain ownership of M.V. Westward, built in 1924, on which recently completed 19 month (21,500 mile) circumnavigation of the Pacific Ocean.

TODD MADSEN

21 Commonwealth Avenue
San Francisco, CA 94118

(415) 305 3543
todd.madsen@cavancapital.com

WORK HISTORY

OceanSpar LLC

President

San Francisco, Seattle
2006 - Present

- Leading company in development of new technologies for nascent offshore marine aquaculture industry. Products and services include large-scale fish pens, feeding and control systems, and engineering services.

ClaimIQ

Founder, President & CEO

San Francisco
1999 - 2005

- Founded new company providing mission-critical software and services to Property-Casualty insurance industry. Core products focused on managing auto injury claims process through data-driven technologies and predictive modeling algorithms.
- Led all aspects of company start-up, including intellectual property rights security, closing over \$15 million in financing from multiple VC investors, and lead role in securing initial customer contracts. Led company through sale process.

Mercer Management Consulting

Principal

San Francisco
1996 - 1999

- Partner in North American financial services practice, responsible for \$6 million annual revenue, creation of new intellectual capital, and personnel development.
- Led 20 member team developing and implementing strategies for \$5 billion Property-Casualty insurance carrier. Project areas included customer risk scoring models, fraud and litigation management, injury claim evaluation, and productivity improvements.

Ernst & Young

Senior Manager

Boston, Riyadh, Singapore, Mexico City, San Francisco
1989 - 1996

- Led strategy and operations consulting projects for international financial services clients. Focus areas included bankcard market entry decisions, competitor assessments, bank branch optimization, and lifetime customer value analysis.
- Led cost reduction projects for international bulk chemical producer, focusing on regional order handling, demand/supply balancing, and production scheduling.

Andersen Consulting (Accenture)

Manager

Chicago
1986 - 1989

- Participated in process reengineering, cost reduction, strategy development projects in a variety of industries, including process manufacturing and book distribution.

EDUCATION

University of Chicago, Graduate School of Business
Master of Business Administration – Finance, Economics
Illinois State University
Bachelor of Science – Computer Science

1992

1986

OTHER

Married (Elena) with two daughters.